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SUBJECT: Bechtel to Survey First Bid Round Oil Fields

Sensitive but unclassified. Contains proprietary business information. Please protect accordingly.

11. (U) Summary: On April 15, EMIN met with Bechtel executives who described their project to survey six oil fields in support of the first bid round at the behest of the Ministry of Oil (MoO). International oil companies (IOCs) that are participating in the bid round could then purchase the survey information to obtain a better understanding of current field conditions and insights into conducting business with the MoO.. Bechtel's survey could help oil companies obtain the information they otherwise would not have access to, helping to support the bid round process. End summary. Bechtel to Survey of First Bid Round Fields

12. (SBU) Bechtel Corporation executives from the Global Security Unit and the Oil, Gas and Chemicals Unit met April 15 with EMIN Ambassador Wall, members of CJ9 Essential Services Division, Econoffs, Foreign Commercial Service (FCS) and Department of Transportation staff to brief on Bechtel's current project and to seek Embassy assistance and advice. The Ministry of Oil's (MoO) information on six oil fields presented to bidders so far has been woefully inadequate and the IOCs have expressed disappointment in the initial packets. A Bechtel official said, for example, the West Qurnah field data consisted of a crude map with a table of equipment and approximately 20 pictures. (Note: The six fields include Kirkuk, Bai Hasan, Maysan, Zubair, Rumaila, and West Qurna. Since the gas fields are not producing, there are no production facilities to be evaluated. End note.) Bechtel executives said that Gaffney Cline and Associates (GCA), which is under contract with the MoO to assist with the bid rounds, contacted both Bechtel and Kellogg, Brown and Root (KBR) prior to the February Istanbul workshop to seek proposals to survey the six oil fields offered in the first bid round. This survey would help supplement the MoO's information data packages provided to the IOCs. Bechtel's proposal was selected. Interest in Survey Drops from 18 to 3

13. (SBU) Initially, 18 of the IOCs at the Istanbul workshop had expressed interest in purchasing a copy of the survey. Since then, the number has dropped to three: Exxon, Conoco-Phillips, and the Chinese National Petroleum Company (CNPC). Bechtel hopes that after it completes the surveys, it can convince more companies to purchase them. One company, Lukoil had apparently based its decision on a price point, with a cap of \$300,000. Bechtel hoped that with more companies subscribing, they could lower the subscription price to a level that would attract more companies. A Bechtel executive said BP had declined immediately when Bechtel provided the terms of subscription on February 24, which he opined had motivated the other companies to follow suit. BP's competitors might have suspected that the pull-out indicated BP and Shell were confident that they would win the bid round, especially since they had already conducted their own studies on certain Iraqi fields.

Troubles Getting an Agreement

14. (SBU) Bechtel representatives described initial complications in reaching an agreement with the MoO. Although GCA requested Bechtel to conduct the surveys, none of the parties involved were willing to sign a contract with Bechtel. Thus, Bechtel decided to sell the Qsign a contract with Bechtel. Thus, Bechtel decided to sell the surveys on a subscription basis without an official contract signed with any party. In order to conduct the surveys, Bechtel needed a formal agreement with the MoO that would provide access to the six oil fields and indemnify Bechtel for any damages or liabilities incurred during the survey. The final agreement was a two-page document containing the bare minimum of standard clauses that Bechtel felt were essential. The company experienced difficulty with MoO personnel hand-writing in changes on the signed agreement, even after both parties had agreed to the text.

Time Schedule for Work

15. (SBU) Bechtel plans to complete the surveys by May 15, and to deploy two teams for a period of two weeks, with each team spending 2-3 days on a field. (Comment: IOC bids were originally due in April and final approval was scheduled for June, but the schedule has slipped by at least a month. The schedule could slip even further if the MoO must wait until May 15 for IOCs to finalize their bid proposals. End comment.) A Bechtel executive also speculated that the IOCs will be using Bechtel's experience on the ground as a bellwether for their future experiences in Iraq. Occidental Oil had observed that if the Iraqis had trouble agreeing to a two-page document, how could the MoO be trusted to sign 50- to 75-page documents with the IOCs.

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Survey Objectives

16. (SBU) The first order objective of the surveys will be to evaluate the production capacity of the fields. Other order objectives will include evaluating the field's support infrastructure and evaluating the field's connectivity to the general Iraqi distribution and export system. The representatives said that Bechtel had been asked to assess the current equipment with special emphasis placed on upgrades made over the past year and any planned upgrades over the next year. (Comment: The IOCs that had previously completed evaluations of the fields, such as Exxon Mobil, could have requested this focus in order to update the information already on hand. Additionally, the current "crash program" has put numerous tenders out for extensive work to be done in the fields open for bid. End Comment) The Bechtel representatives also said they had agreed to provide four hard-copies of the survey to the MoO.

Future Business in Iraq

17. (SBU) Bechtel said that Oil and Gas is the first Bechtel division to re-enter Iraq since it completed contracts for USAID's reconstruction program in Iraq in 2006. Bechtel representatives noted that several other divisions had been recently contacted to work in Iraq, notably the Electricity Division. The representatives said the primary concern was security, followed by contracting. They expressed disappointment with the MoO contracting unit thus far. The representatives said that companies like Bechtel will not lower their contracting standards for Iraq, and the Iraqis will have to learn that through engagement with international companies. They said that in order to reach Oil Minister Shahrastani's goals, Iraq requires a dramatic change. Should conditions progress as hoped in the coming months, senior executives from Bechtel could be visiting Iraq and laying the groundwork for future relationships in the oil and many other sectors.

Comment

18. (SBU) Despite Bechtel's previous experience in Iraq, its Oil and Gas Division executives seemed to be groping for a way forward. They were dismayed to hear that the MoO Petroleum Contracts and Licensing Directorate (PCLD) Director General (DG) would not be available until after their departure and appeared to have no definite appointments either at North Oil Company or the South Oil Company. The Embassy provided suggestions of contacts at the MoO and put them in touch with PRT Kirkuk and REO Basrah. While Bechtel has an obvious financial incentive, its success in this endeavor would help support the bid round process and thereby boost Iraq's oil production and eventually increasing export revenues. End comment.

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